

Legislative Audit Division

State of Montana



Report to the Legislature

December 2006

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Judicial Branch

This report contains five recommendations for improvement in Judicial Branch operations. Recommendations addressed in the report include accounting and compliance issues related to Judicial Branch operations.

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

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Helena MT 59620-1705

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James Gillett
Jim Pellegrini

December 2006

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Judicial Branch (branch) for the two fiscal years ended June 30, 2006. Included in this report are five recommendations to the branch concerning accounting and compliance issues. The branch's written response to the audit recommendations is included in the back of the audit report starting on page B-3.

We thank the Chief Justice and the branch personnel for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", is written over a horizontal line.

Scott A. Seacat
Legislative Auditor

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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Judicial Branch

Members of the audit staff involved in this audit were Lisa Blanford, Chris G. Darragh, Cindy S. Jorgenson, Laura L. Norris, Jay Phillips and Vickie Rauser.

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Elected and Appointed Officials

| | | | <u>Term Expires</u> |
|-------------------------------|------------------|---------------|---------------------|
| Supreme Court | Karla Gray | Chief Justice | 2008 |
| | Patricia Cotter | Justice | 2008 |
| | William Leaphart | Justice | 2010 |
| | Brian Morris | Justice | 2012 |
| | James C. Nelson | Justice | 2012 |
| | Jim Rice | Justice | 2006 |
| | John Warner | Justice | 2006 |
| Clerk of Supreme Court | Ed Smith | | 2006 |
| Appointed Officials | Lois Menzies | | Court Administrator |
| | Judith Meadows | | State Law Librarian |

For additional information concerning the Judicial Branch programs contact:

Lois Menzies, Court Administrator
Montana Supreme Court
PO Box 203002
Helena, MT 59620-3002
(406) 444-2698
e-mail: lmenzies@mt.gov

Judicial Branch

We performed a financial-compliance audit of the Judicial Branch (branch) for the two fiscal years ended June 30, 2006. The branch implemented five and partially implemented one of the six prior audit recommendations.

This report contains five recommendations where the branch could improve compliance with state law and ensure all activity is appropriately recorded on the accounting records.

We issued a qualified opinion on the financial schedules contained in this report. The Independent Auditor's Report on page A-3 and Recommendation #1 discuss misstatements in the General Fund in fiscal year 2004-05. Additionally, the Independent Auditor's Report on page A-3 and Recommendation #3 discuss misstatements in the State Special Revenue Fund in fiscal year 2004-05. The reader should use caution when analyzing the presented financial information and the supporting data on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS).

The listing below serves as a means of summarizing the recommendations contained in the report, the branch's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the Judicial Branch record valid obligations on its accounting records in accordance with state accounting policy. 6

Branch Response: Concur. See page B-3.

Recommendation #2

We recommend the Judicial Branch repay the General Fund \$3,860 and the Federal Special Revenue Fund \$2,045..... 7

Branch Response: Concur. See page B-4.

Report Summary

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| | Branch Response: Concur. See page B-4. | |
| <u>Recommendation #5</u> | We recommend the Judicial Branch ensure that all youth courts deposit receipts in accordance with state law. | 10 |
| | Branch Response: Concur. See page B-4. | |

Introduction

We performed a financial-compliance audit of the Judicial Branch (branch) for the two fiscal years ended June 30, 2006. The audit objectives were to:

1. Determine the branch's compliance with applicable laws and regulations.
2. Make recommendations for improvements in the branch's management and internal controls.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the financial schedules present fairly the results of operations of the branch for each of the two fiscal years ended June 30, 2006.

This report contains five recommendations to the branch. Other areas of concern not having a significant effect on the successful operations of the branch are not included in this report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Background

The Constitution of the state of Montana vests the judicial power of the state in a Supreme Court, district courts, justice courts, and such other courts as may be provided by law. The Supreme Court, which consists of a Chief Justice and six justices, has appellate jurisdiction and limited original jurisdiction. The Chief Justice is the head of the Supreme Court. The Court Administrator, appointed by the Supreme Court, serves as its administrative officer. The Supreme Court appoints the Law Librarian. The librarian develops and maintains the law library collection and administers library services. The Supreme Court has general supervisory control over all other courts and may make rules governing appellate procedure, practice and procedure for all other courts, admission to the bar, and conduct of practicing attorneys. The rules of procedure are subject to disapproval by the legislature in either of the two sessions following promulgation.

Introduction

Supreme Court justices and district court judges are elected to office in nonpartisan elections and serve eight-year and six-year terms, respectively. Terms of office and the procedure for filling vacancies in the courts are established in the Constitution and by statute. The legislature establishes judicial districts and provides for the number of judges in each district. Currently, there are 43 district court judges in 22 judicial districts.

The Clerk of the Supreme Court is elected to a six-year term on a partisan ballot in a statewide election. In accordance with section 3-2-402, MCA, the clerk keeps the Supreme Court's records and files, performs functions relating to issuing writs and certificates, approves bonds, files all papers and transcripts, and performs other duties as required by the Supreme Court.

For fiscal management purposes, the branch is divided into six programs with a total authorized full-time equivalent (FTE) staff level of 392 for fiscal year 2005-06. A description of each program follows:

The **Supreme Court Operations** program accounts for the costs of operation of the Supreme Court and Office of the Court Administrator (Office). The Office provides services to the Judicial Branch including information technology, budget and finance, payroll and human resource management, policy and technical support for the Youth Courts, judicial education, and children's services provided through the federal Court Assessment Program (62.75 FTE).

The **Boards and Commissions** program accounts for expenditures for the boards and commissions established either by the Constitution, statute, or the Supreme Court. These boards and commissions handle areas such as judicial discipline, rules, admission to the bar, and other activities to improve and monitor the administration of justice (3 FTE).

The **Law Library** program accounts for the operation of the State Law Library. The branch maintains the library for use by the Supreme Court, the legislature, state officers and employees, members of the bar, and the general public (6.75 FTE).

The **District Court Operations** program accounts for the payment of salaries, travel, training expenses, and operating

costs for district court judges, their staff, and youth probation officers. It also includes certain adult criminal, child abuse, and child neglect case expenses. The 2001 Legislature made the branch financially responsible for the district courts and their expenses, effective July 1, 2002 (296 FTE).

The **Water Courts Supervision** program accounts for expenditures of the water courts. Montana's water courts were created to adjudicate claims of existing water rights in Montana and supervise the distribution of water within the four water divisions of the state (18 FTE).

The **Clerk of Court** program accounts for the costs of operation of the Clerk of the Supreme Court (5.5 FTE).

Attached Agencies

The Montana Medical Legal Panel and the Montana Chiropractic Legal Panel are attached to the Supreme Court for administrative purposes only and are audited separately. The Montana Chiropractic Legal Panel's audit (06C-12) for the two fiscal years ended June 30, 2006 and the Montana Medical Legal Panel's audit (06C-01) for the two fiscal years ended December 31, 2005 were released in November 2006.

The panels review malpractice claims made against medical or chiropractic physicians and health care providers. The panels must hear and make a decision on a claim before the claim can be filed in court. The panels determine if there is substantial evidence the stated act or omission occurred, whether the act or omission constitutes malpractice, and if there is reasonable medical probability of injury because of the act or omission.

Prior Audit Recommendations

Our prior audit report for the two fiscal years ended June 30, 2004, contained six recommendations. The Branch has implemented five recommendations and partially implemented one recommendation. The partially implemented recommendation relates to youth court restitution addressed on page 8 and untimely deposits addressed on page 9.

Findings and Recommendations

Accounting and Compliance Issues

State law requires the branch to input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles. Additionally, state accounting policy provides guidance to the branch to ensure the accounting records reflect the branch's actual activity.

District Court Expenditures

The branch did not record all its valid obligations related to district court operations on the state's accounting system.

The following paragraphs describe instances where the branch should have recorded additional financial obligations in fiscal years 2004-05 and 2005-06. The fact that the branch did not record these obligations contributed to the opinion qualification in fiscal year 2004-05, as discussed on page A-3.

Unfit to Proceed Expenditures

In cases where the court finds a defendant unfit to proceed, section 46-14-221(5), MCA, requires the district courts to pay the costs of placing the defendant in the custody of the Department of Public Health and Human Services (PHHS). The branch did not pay any expenditures associated with keeping these defendants at appropriate PHHS facilities during fiscal years 2004-05 and 2005-06. As a result, expenditures are understated by \$604,815 and \$739,323 in the District Court Operations program for fiscal years 2004-05 and 2005-06, respectively.

The branch asked for additional appropriation authority from the Office of Budget and Program Planning (OBPP) in fiscal years 2004-05 and 2005-06 to cover the unfit to proceed expenditures. Rather than provide additional appropriation authority to the branch, OBPP directed the branch to not pay these costs. In fiscal year 2004-05, OBPP noted the branch had liabilities that exceeded its appropriation authority and instructed the branch to not pay the unfit to proceed costs so it could pay the rest of the district court expenses. In fiscal year 2005-06, OBPP personnel gave the branch the same

Findings and Recommendations

instruction in order to reduce the branch's supplementary appropriation request. OBPP personnel said there was no impact to the General Fund, because the branch pays the expenses from the state's General Fund and PHHS deposits the revenue in the state's General Fund.

Even though there is no impact to the General Fund on a statewide basis, the branch is responsible for the unfit to proceed costs and by law they should be recorded on the branch's accounting records.

Public Defender Expenditures

State accounting policy requires the branch to record expenditures for services in the year the services were received. The branch did not estimate and record a liability for the amount of unpaid Public Defender bills existing at June 30, 2005. Branch personnel stated they did not have a basis for estimating and accruing the outstanding liability. In fiscal year 2005-06 the branch recorded payment of its outstanding fiscal year 2004-05 bills as prior year expenditures amounting to \$1,244,809.

Although the branch did not know the exact amount of its Public Defender liabilities at June 30, 2005, it should have estimated the amount as was done at June 30, 2004. The branch did accrue a liability for its outstanding fiscal year 2005-06 obligations at June 30, 2006.

Recommendation #1

We recommend the Judicial Branch record valid obligations on its accounting records in accordance with state accounting policy.

Transferring Cash to the Proper Fund

At June 30, 2006, the branch had cash in the State and Federal Special Revenue funds which should have been recorded in the General Fund and Federal Special Revenue Fund.

From fiscal year 1999-2000 through fiscal year 2002-03, the branch allocated certain expenditures to the General Fund that should have

Findings and Recommendations

been allocated to State and Federal Special Revenue Funds. The branch also allocated expenditures to Federal Special Revenue Funds that should have been allocated to State Special Revenue Funds. This left cash balances in State and Federal Special Revenue Funds.

Table 1 shows the cash balances due between funds at June 30, 2006.

| Table 1 | | |
|---|------------------------------|---------------|
| <u>Cash Balances Due Between Funds at June 30, 2006</u> | | |
| Cash in the | Cash should be in the | Amount |
| State Special Revenue Fund | General Fund | \$ 683 |
| Federal Special Revenue Fund | General Fund | \$ 3,177 |
| State Special Revenue Fund | Federal Special Revenue Fund | \$ 2,045 |
| Source: Compiled by the Legislative Audit Division from branch accounting records. | | |

The branch has not transferred cash amounting to \$3,860 to the General Fund and \$2,045 to the Federal Special Revenue Fund.

Recommendation #2

We recommend the Judicial Branch repay the General Fund \$3,860 and the Federal Special Revenue Fund \$2,045.

Prior Year Juvenile Delinquency Intervention Program Transfer-In

The branch recorded \$924,828 of prior year transfers-in as current year transfers-in in the State Special Revenue Fund.

At the end of each fiscal year, the Department of Corrections is required to transfer any unspent Juvenile Delinquency Intervention Program (JDIP) allocation to the branch. In fiscal year 2003-04 the branch did not receive or record its JDIP transfer on its accounting records. When it received the fiscal year 2003-04 JDIP transfer of \$924,828 during fiscal year 2004-05, the branch recorded it as a current year transfer-in. State accounting policy requires corrections

Findings and Recommendations

of errors for the previous fiscal year to be recorded as prior year activity.

Branch personnel stated they did not consider recording this as prior year activity because they did not actually receive the money until fiscal year 2004-05. Even though the branch did not receive the money until the subsequent fiscal year, branch personnel should have recorded the transfer as prior year in accordance with state accounting policy.

Recommendation #3

We recommend the Judicial Branch record transfers-in in accordance with state accounting policy.

Youth Courts

Section 41-5-1703, MCA, requires youth probation officers to assist youth in the payment of fines, restitution, and other costs ordered by the youth court. Youth court fees, fines, and restitution are to be recorded on the accounting records in accordance with branch and state accounting policy.

Unrecorded Youth Court Restitution

The branch did not record all youth court restitution on its accounting records.

As of June 30, 2006, the branch recorded youth court restitution for 15 of the 22 judicial districts on its accounting records. The amount of restitution collected during fiscal year 2005-06 by these youth courts was \$331,099 and the amount disbursed to designated recipients was \$356,837, which included a prior year balance. The restitution collected and disbursed in the remaining seven judicial districts is unknown, due to the fact that restitution collections and payments are handled by county treasurers, county attorneys, and others.

We visited three of these seven judicial districts. In one district the county treasurer records all of the receipts and disbursements at the county, under the direction of the youth court. Youth court

Findings and Recommendations

personnel could not verify the county treasurer only accessed the restitution account as directed by the youth court. In the remaining two judicial districts the county attorney collects and disburses the restitution with no oversight from the youth court. The lack of branch oversight in these seven unrecorded judicial districts increases the possibility for loss or misuse of restitution moneys.

According to branch personnel, at the time of district court assumption, these judicial districts had controls in place with outside entities to appropriately handle restitution. Since the state did not have adequate controls in place at the time of assumption, the branch did not require a change in operations. The branch is currently transferring the restitution collection and disbursement functions to existing branch employees to facilitate the accountability for youth court restitution, and to record the activity on the branch's accounting records.

Recommendation #4

We recommend the Judicial Branch ensure youth court restitution is recorded on the branch's accounting records in accordance with state accounting policy.

Youth Court Untimely Deposits

One youth court does not deposit fees, fines, and restitution as required by state law.

State law and branch policy require cash deposits be made when the accumulated amount of coin and currency received exceeds \$100, total collections exceed \$500, or once a week, at a minimum.

We reviewed deposits of fines, fees, and restitution at six youth courts. None of the deposits reviewed at one youth court complied with state law and branch policy concerning deposits. In August 2006, the youth court collected \$1,596 in fines and fees. During this month the youth court made four deposits when seven deposits were required for compliance with state law and branch policy. We also reviewed the restitution deposits for this court for May 2006. Total

Findings and Recommendations

receipts amounting to \$2,922 were made in four deposits, while seven were required to comply with state law and branch policy. Youth court personnel stated that due to the amount of money received, they would need to make several deposits, which would be inefficient and unnecessary. However, the longer cash receipts remain undeposited; the more susceptible they are to loss or theft. Therefore, the branch should require the youth court to make deposits as required by state law.

Recommendation #5

We recommend the Judicial Branch ensure that all youth courts deposit receipts in accordance with state law.

Independent Auditor's Report & Branch Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Judiciary for each of the fiscal years ended June 30, 2006, and 2005. The information contained in these financial schedules is the responsibility of the Judiciary's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

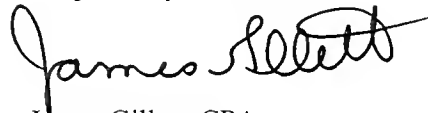
As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the Judiciary's assets, liabilities, and cash flows.

The Judiciary did not record all unfit to proceed and public defender expenditures for the District Court Operations program in the General Fund in fiscal year 2004-05. On the Schedule of Changes in Fund Balances, the General Fund Direct Entries to Fund Balance are understated by \$362,018, Budgeted Expenditures and Transfers-Out are understated by \$1,825,596 and Fund Balance at June 30, 2005, is overstated by \$1,463,578. On the Schedule of Expenditures and Transfers-Out, in the District Court Operations program the Other Services Expenditures, General Fund Expenditures and Transfers-Out, and Actual Budgeted Expenditures and Transfers-Out are understated by \$1,825,596.

The Judiciary recorded the prior year Juvenile Delinquency Intervention Program surplus as a current year transfer-in in the State Special Revenue Fund in fiscal year 2004-05. On the Schedule of Revenues and Transfers-In, Prior Year Revenues and Transfers-In Adjustments are understated and Actual Budgeted Revenues and Transfers-In are overstated by \$924,928.

In our opinion, except for the effects of the matters discussed in the preceding two paragraphs, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Judiciary for each of the fiscal years ended June 30, 2006, and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a stylized, flowing script.

James Gillett, CPA
Deputy Legislative Auditor

September 1, 2006

JUDICIARY
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Agency Fund |
|---|-------------------|-------------------------------|---------------------------------|--------------------|----------------|
| FUND BALANCE: July 1, 2005 | \$ (2,050,159) | \$ 2,115,661 | \$ 1,368 | \$ 20 | \$ 65,237 |
| PROPERTY HELD IN TRUST: July 1, 2005 | | | | | |
| ADDITIONS | | | | | |
| Budgeted Revenues & Transfers-In | 161,887 | 2,323,782 | 1,692,191 | 57,835 | |
| Nonbudgeted Revenues & Transfers-In | 4,136 | 66,082 | | | |
| Prior Year Revenues & Transfers-In Adjustments | 30,608 | 2,515 | 397 | | |
| Direct Entries to Fund Balance | 39,308,179 | 870,593 | 3,088 | | |
| Additions to Property Held in Trust | | | | | 331,099 |
| Total Additions | <u>39,504,810</u> | <u>3,262,972</u> | <u>1,695,676</u> | <u>57,835</u> | <u>331,099</u> |
| REDUCTIONS | | | | | |
| Budgeted Expenditures & Transfers-Out | 40,000,576 | 2,077,094 | 1,692,588 | 53,676 | |
| Nonbudgeted Expenditures & Transfers-Out | | 53,901 | | | |
| Prior Year Expenditures & Transfers-Out Adjustments | 1,282,931 | 10,420 | | | |
| Reductions in Property Held in Trust | | | | | 356,837 |
| Total Reductions | <u>41,283,507</u> | <u>2,141,415</u> | <u>1,692,588</u> | <u>53,676</u> | <u>356,837</u> |
| FUND BALANCE: June 30, 2006 | \$ (3,828,856) | \$ 3,237,218 | \$ 4,456 | \$ 4,179 | \$ 39,499 |
| PROPERTY HELD IN TRUST: June 30, 2006 | | | | | |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Agency Fund |
|---|-----------------------|-------------------------------|---------------------------------|--------------------|------------------|
| | \$ (2,823,967) | \$ 555,247 | \$ (6,432) | \$ 8,187 | \$ 5,250 |
| FUND BALANCE: July 1, 2004 | | | | | |
| PROPERTY HELD IN TRUST: July 1, 2004 | | | | | |
| ADDITIONS | | | | | |
| Budgeted Revenues & Transfers-In | 163,121 | 4,407,392 | 1,515,929 | 49,247 | |
| Nonbudgeted Revenues & Transfers-In | 57,161 | 40,528 | | | |
| Prior Year Revenues & Transfers-In Adjustments | 752 | (46,968) | 34,013 | | |
| Direct Entries to Fund Balance | 34,192,546 | 739,583 | | | |
| Additions to Property Held in Trust | | | | | 63,486 |
| Total Additions | 34,413,580 | 5,140,535 | 1,549,942 | 49,247 | 63,486 |
| REDUCTIONS | | | | | |
| Budgeted Expenditures & Transfers-Out | 33,566,314 | 3,545,581 | 1,553,243 | 57,414 | |
| Nonbudgeted Expenditures & Transfers-Out | 56,628 | 34,128 | | | |
| Prior Year Expenditures & Transfers-Out Adjustments | 16,830 | 412 | (11,101) | | |
| Reductions in Property Held in Trust | | | | | 3,499 |
| Total Reductions | 33,639,772 | 3,580,121 | 1,542,142 | 57,414 | 3,499 |
| FUND BALANCE: June 30, 2005 | \$ (2,050,159) | \$ 2,115,661 | \$ 1,368 | \$ 20 | \$ 65,237 |
| PROPERTY HELD IN TRUST: June 30, 2005 | | | | | |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Total |
|---|-----------------|-------------------------------|---------------------------------|--------------------|--------------|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | |
| Licenses and Permits | \$ 102,575 | | | | \$ 102,575 |
| Taxes | 2,944 | | 1,131 | | 4,075 |
| Charges for Services | 45,522 | \$ 190,810 | | | 236,332 |
| Investment Earnings | 752 | 21,003 | | | 21,755 |
| Rentals, Leases and Royalties | 14,289 | | | | 14,289 |
| Miscellaneous | | 162,826 | | \$ 57,835 | 220,661 |
| Grants, Contracts, Donations and Abandonments | | 120,261 | | | 120,261 |
| Other Financing Sources | 30,550 | 1,897,479 | | | 1,928,029 |
| Federal | | | 1,691,457 | | 1,691,457 |
| Total Revenues & Transfers-In | 196,632 | 2,392,379 | 1,692,588 | 57,835 | 4,339,434 |
| Less: Nonbudgeted Revenues & Transfers-In | 4,136 | 66,082 | | | 70,218 |
| Prior Year Revenues & Transfers-In Adjustments | 30,608 | 2,515 | 397 | | 33,520 |
| Actual Budgeted Revenues & Transfers-In | 161,888 | 2,323,782 | 1,692,191 | 57,835 | 4,235,696 |
| Estimated Revenues & Transfers-In | 161,846 | 435,712 | 1,558,107 | 57,835 | 2,213,500 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ 42 | \$ 1,888,070 | \$ 134,084 | \$ 0 | \$ 2,022,196 |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | |
| Charges for Services | \$ 42 | \$ 21,704 | | | 21,746 |
| Investment Earnings | | (1) | | | (1) |
| Grants, Contracts, Donations and Abandonments | | 67 | | | 67 |
| Other Financing Sources | | 1,866,300 | | | 1,866,300 |
| Federal | | | \$ 134,084 | | 134,084 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ 42 | \$ 1,888,070 | \$ 134,084 | \$ 0 | \$ 2,022,196 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| TOTAL REVENUES & TRANSFERS-IN BY CLASS | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Total |
|--|-----------------|-------------------------------|---------------------------------|--------------------|--------------|
| Licenses and Permits | | | | | |
| Taxes | \$ 99,325 | | | | \$ 99,325 |
| Charges for Services | 1,822 | 666 | | | 2,488 |
| Investment Earnings | 48,641 | 1,663,639 | | | 1,712,280 |
| Rentals, Leases and Royalties | 2,339 | 10,410 | | | 12,749 |
| Miscellaneous | 15,907 | | | | 15,907 |
| Grants, Contracts, Donations and Abandonments | | 593,084 | | \$ 49,247 | 642,331 |
| Other Financing Sources | | 34,128 | | | 34,128 |
| Federal | 53,000 | 2,099,025 | | | 2,152,025 |
| Total Revenues & Transfers-In | 221,034 | 4,400,952 | \$ 1,549,942 | | 6,221,175 |
| Less: Nonbudgeted Revenues & Transfers-In | 57,161 | 40,528 | 1,549,942 | 49,247 | 97,689 |
| Prior Year Revenues & Transfers-In Adjustments | 752 | (46,968) | 34,013 | | (12,203) |
| Actual Budgeted Revenues & Transfers-In | 163,121 | 4,407,392 | 1,515,929 | 49,247 | 6,135,689 |
| Estimated Revenues & Transfers-In | 163,121 | 4,407,392 | 1,675,090 | 49,247 | 6,294,850 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ 0 | \$ 0 | \$ (159,161) | \$ 0 | \$ (159,161) |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | |
| Federal | \$ 0 | \$ 0 | \$ (159,161) | \$ 0 | \$ (159,161) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ 0 | \$ 0 | \$ (159,161) | \$ 0 | \$ (159,161) |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | Boards & Commissions | Clerk of Court | District Court Operations | Law Library | Supreme Court Operations | Water Courts Supervision | Total |
|---|----------------------|-------------------|---------------------------|-------------------|--------------------------|--------------------------|----------------------|
| Personal Services | | | | | | | |
| Salaries | \$ 115,390 | \$ 271,310 | \$ 12,719,164 | \$ 245,024 | \$ 2,878,333 | \$ 540,011 | \$ 16,769,232 |
| Employee Benefits | 35,273 | 83,503 | 4,503,181 | 79,075 | 920,534 | 174,640 | 5,796,206 |
| Total | <u>150,663</u> | <u>354,813</u> | <u>17,222,345</u> | <u>324,099</u> | <u>3,798,867</u> | <u>714,651</u> | <u>22,565,438</u> |
| Operating Expenses | | | | | | | |
| Other Services | 27,456 | 18,442 | 15,544,116 | 161,197 | 1,441,366 | 11,566 | 17,204,143 |
| Supplies & Materials | 13,956 | 11,656 | 533,375 | 6,157 | 934,507 | 46,316 | 1,545,967 |
| Communications | 14,719 | 12,283 | 268,646 | 9,181 | 239,233 | 31,120 | 575,182 |
| Travel | 98,722 | 9,478 | 444,903 | 4,370 | 116,247 | 4,713 | 678,433 |
| Rent | 10,781 | 5,905 | 48,604 | | 452,628 | 48,023 | 565,941 |
| Utilities | | | | | 78 | | 78 |
| Repair & Maintenance | 30 | 80,420 | 53,486 | 2,390 | 47,642 | 53,358 | 237,326 |
| Other Expenses | 4,461 | 6,389 | 112,419 | 12,176 | 98,269 | 10,358 | 244,072 |
| Goods Purchased For Resale | | | 10 | | | | 10 |
| Total | <u>170,125</u> | <u>144,573</u> | <u>17,005,559</u> | <u>195,471</u> | <u>3,329,970</u> | <u>205,454</u> | <u>21,051,152</u> |
| Equipment & Intangible Assets | | | | | | | |
| Equipment | | | 26,863 | 279,212 | 46,012 | 23,965 | 376,052 |
| Capital Leases-Equipment-Nonbu | | | | 30,550 | | | 30,550 |
| Intangible Assets | | 471,000 | | | | | 471,000 |
| Total | | <u>471,000</u> | <u>26,863</u> | <u>309,762</u> | <u>46,012</u> | <u>23,965</u> | <u>877,602</u> |
| Benefits & Claims | | | | | | | |
| To Individuals | | | 632,447 | | | | 632,447 |
| Total | | | <u>632,447</u> | | | | <u>632,447</u> |
| Debt Service | | | | | | | |
| Capital Leases | | | 12,852 | 31,695 | | | 44,547 |
| Total | | | <u>12,852</u> | <u>31,695</u> | | | <u>44,547</u> |
| Total Expenditures & Transfers-Out | \$ <u>320,788</u> | \$ <u>970,386</u> | \$ <u>34,900,066</u> | \$ <u>861,027</u> | \$ <u>7,174,849</u> | \$ <u>944,070</u> | \$ <u>45,171,186</u> |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | | |
| General Fund | \$ 264,742 | \$ 396,795 | \$ 33,508,986 | \$ 807,351 | \$ 6,305,633 | | \$ 41,283,507 |
| State Special Revenue Fund | 56,046 | | 1,003,119 | | 138,180 | \$ 944,070 | 2,141,415 |
| Federal Special Revenue Fund | | 573,591 | 387,961 | | 731,036 | | 1,692,588 |
| Enterprise Fund | | | | 53,676 | | | 53,676 |
| Total Expenditures & Transfers-Out | <u>320,788</u> | <u>970,386</u> | <u>34,900,066</u> | <u>861,027</u> | <u>7,174,849</u> | <u>944,070</u> | <u>45,171,186</u> |
| Less: Nonbudgeted Expenditures & Transfers-Out | | | 53,901 | | | | 53,901 |
| Prior Year Expenditures & Transfers-Out Adjustments | (236) | 324 | 1,242,060 | 30,969 | 19,841 | 393 | 1,293,351 |
| Actual Budgeted Expenditures & Transfers-Out | <u>321,024</u> | <u>970,062</u> | <u>33,604,105</u> | <u>830,058</u> | <u>7,155,008</u> | <u>943,677</u> | <u>43,823,934</u> |
| Budget Authority | 354,416 | 989,471 | 35,419,926 | 833,051 | 8,609,279 | 1,057,445 | 47,263,588 |
| Unspent Budget Authority | \$ <u>33,392</u> | \$ <u>19,409</u> | \$ <u>1,815,821</u> | \$ <u>2,993</u> | \$ <u>1,454,271</u> | \$ <u>113,768</u> | \$ <u>3,439,654</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | | |
| General Fund | \$ 23,109 | \$ 1,014 | \$ 87,482 | \$ 231 | \$ 1,046,283 | | \$ 1,158,119 |
| State Special Revenue Fund | 10,283 | | 878,459 | | 201,289 | \$ 113,768 | 1,203,799 |
| Federal Special Revenue Fund | | 18,395 | 849,880 | | 206,699 | | 1,074,974 |
| Enterprise Fund | | | | 2,762 | | | 2,762 |
| Unspent Budget Authority | \$ <u>33,392</u> | \$ <u>19,409</u> | \$ <u>1,815,821</u> | \$ <u>2,993</u> | \$ <u>1,454,271</u> | \$ <u>113,768</u> | \$ <u>3,439,654</u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>Boards and Commissions</u> | <u>Clerk of Court</u> | <u>District Court Operations</u> | <u>Law Library</u> | <u>Supreme Court Operations</u> | <u>Water Courts Supervision</u> | <u>Total</u> |
|---|-----------------------------------|---------------------------|--------------------------------------|------------------------|-------------------------------------|-------------------------------------|----------------------|
| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | | | | | | | |
| Personal Services | | | | | | | |
| Salaries | \$ 108,401 | \$ 262,522 | \$ 12,360,786 | \$ 279,854 | \$ 2,369,425 | \$ 462,471 | \$ 15,843,459 |
| Employee Benefits | 32,534 | 79,545 | 4,319,519 | 86,350 | 770,949 | 145,792 | 5,434,689 |
| Total | <u>140,935</u> | <u>342,067</u> | <u>16,680,305</u> | <u>366,204</u> | <u>3,140,374</u> | <u>608,263</u> | <u>21,278,148</u> |
| Operating Expenses | | | | | | | |
| Other Services | 33,221 | 3,426 | 11,781,681 | 145,462 | 858,530 | 29,170 | 12,851,490 |
| Supplies & Materials | 7,116 | 9,042 | 332,983 | 19,801 | 520,069 | 27,268 | 916,279 |
| Communications | 13,599 | 14,265 | 273,786 | 9,593 | 221,064 | 16,209 | 548,516 |
| Travel | 63,582 | 1,856 | 417,146 | 4,086 | 144,972 | 5,297 | 636,939 |
| Rent | 8,660 | 5,423 | 158,996 | | 335,791 | 50,010 | 558,880 |
| Utilities | | | | | 770 | | 770 |
| Repair & Maintenance | 120 | 195 | 49,211 | 3,683 | 31,131 | 5,497 | 89,837 |
| Other Expenses | 16,200 | 5,676 | 102,312 | 15,398 | 146,079 | 8,141 | 293,806 |
| Total | <u>142,498</u> | <u>39,883</u> | <u>13,116,115</u> | <u>198,023</u> | <u>2,258,406</u> | <u>141,592</u> | <u>15,896,517</u> |
| Equipment & Intangible Assets | | | | | | | |
| Equipment | | | 5,240 | 255,909 | 41,350 | | 302,499 |
| Capital Leases-Equipment-Nonbu | | | | 53,000 | | | 53,000 |
| Intangible Assets | | | | | 5,000 | | 5,000 |
| Total | | | <u>5,240</u> | <u>308,909</u> | <u>46,350</u> | | <u>360,499</u> |
| Grants | | | | | | | |
| From State Sources | | | | | 530,913 | | 530,913 |
| Total | | | | | <u>530,913</u> | | <u>530,913</u> |
| Benefits & Claims | | | | | | | |
| To Individuals | | | 683,909 | | | | 683,909 |
| Total | | | <u>683,909</u> | | | | <u>683,909</u> |
| Transfers | | | | | | | |
| Accounting Entity Transfers | | | | | 56,556 | | 56,556 |
| Total | | | | | <u>56,556</u> | | <u>56,556</u> |
| Debt Service | | | | | | | |
| Capital Leases | | | | 12,907 | | | 12,907 |
| Total | | | | <u>12,907</u> | | | <u>12,907</u> |
| Total Expenditures & Transfers-Out | <u>\$ 283,433</u> | <u>\$ 381,950</u> | <u>\$ 30,485,569</u> | <u>\$ 886,043</u> | <u>\$ 6,032,599</u> | <u>\$ 749,855</u> | <u>\$ 38,819,449</u> |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | | |
| General Fund | \$ 239,808 | \$ 381,950 | \$ 29,137,694 | \$ 828,629 | \$ 3,051,691 | | \$ 33,639,772 |
| State Special Revenue Fund | 43,625 | | 917,855 | | 1,868,786 | \$ 749,855 | 3,580,121 |
| Federal Special Revenue Fund | | | 430,020 | | 1,112,122 | | 1,542,142 |
| Enterprise Fund | | | | 57,414 | | | 57,414 |
| Total Expenditures & Transfers-Out | <u>283,433</u> | <u>381,950</u> | <u>30,485,569</u> | <u>886,043</u> | <u>6,032,599</u> | <u>749,855</u> | <u>38,819,449</u> |
| Less: Nonbudgeted Expenditures & Transfers-Out | | | 34,128 | 53,000 | 3,628 | | 90,756 |
| Prior Year Expenditures & Transfers-Out Adjustments | 1,861 | | 12,341 | | (4,061) | (4,000) | 6,141 |
| Actual Budgeted Expenditures & Transfers-Out | <u>281,572</u> | <u>381,950</u> | <u>30,439,100</u> | <u>833,043</u> | <u>6,033,032</u> | <u>753,855</u> | <u>38,722,552</u> |
| Budget Authority | 308,497 | 382,334 | 32,897,972 | 839,205 | 6,840,152 | 755,225 | 42,023,385 |
| Unspent Budget Authority | <u>\$ 26,925</u> | <u>\$ 384</u> | <u>\$ 2,458,872</u> | <u>\$ 6,162</u> | <u>\$ 807,120</u> | <u>\$ 1,370</u> | <u>\$ 3,300,833</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | | |
| General Fund | \$ 26,925 | \$ 384 | \$ 1,119,829 | \$ 486 | \$ 113,387 | | \$ 1,261,011 |
| State Special Revenue Fund | | | 842,037 | | 283,348 | \$ 1,370 | 1,126,755 |
| Federal Special Revenue Fund | | | 497,006 | | 410,385 | | 907,391 |
| Enterprise Fund | | | | 5,676 | | | 5,676 |
| Unspent Budget Authority | <u>\$ 26,925</u> | <u>\$ 384</u> | <u>\$ 2,458,872</u> | <u>\$ 6,162</u> | <u>\$ 807,120</u> | <u>\$ 1,370</u> | <u>\$ 3,300,833</u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Judicial Branch

Notes to the Financial Schedules

For the Fiscal Years Ended June 30, 2006

1. Summary of Significant Accounting Policies

Basis of Accounting

The Judicial Branch (branch) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category the General, State Special Revenue, and Federal Special Revenue funds. In applying the modified accrual basis, the branch records:

Revenues when it receives cash or when receipts are realizable, measurable, earned and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the branch to record the cost of employees' annual and sick leave when used or paid.

The branch uses accrual basis accounting for its Proprietary (Enterprise Fund) and Fiduciary (Agency Fund) fund categories. Under the accrual basis, as defined by state accounting policy, the branch records revenues in the accounting period when realizable, measurable, and earned and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the branch receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Notes to the Financial Schedules

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The branch uses the following funds:

Governmental Fund Category

General Fund – to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. Branch State Special Revenue Funds include Youth Court Fines and Fees, Juvenile Delinquency Intervention Program Surplus, Renewable Resources, Judicial Education, Water Adjudication, Accrued County Sick and Vacation Leave Balances and Judiciary nonbudgeted private funds. In fiscal year 2004-05 it also included court automation.

Federal Special Revenue Fund – to account for activities funded from federal revenue sources. Branch Federal Special Revenue Funds include miscellaneous grants for District Courts, and various branch grants for computer licenses and computer hardware.

Proprietary Fund Category

Enterprise Fund – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes of similar revenues. The Branch Enterprise Fund consists of the Law Library Searches/Research fund.

Fiduciary Fund Category

Agency Fund – to account for resources held by the state in a custodial capacity. Branch agency funds include Bad Debt Collection and District Court Youth Probation Restitution.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The branch has authority to pay obligations from the statewide General Fund within its appropriation limits. The branch expends cash or other assets from the statewide fund when it pays General Fund obligations. The branch outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2005, and June 30, 2006.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. District Court Operations Program Prior Period Adjustment

The branch did not accrue a liability of \$1,244,809 at June 30, 2005, for district court operations for which a valid obligation existed. The branch recorded these expenditures as prior year expenditures in fiscal year 2005-06.

Branch Response

THE SUPREME COURT OF MONTANA

KARLA M. GRAY
CHIEF JUSTICE

215 NORTH SANDERS
P.O. BOX 203001
HELENA, MONTANA 59620-3001



TELEPHONE (406) 444-5490
E-MAIL kgray@state.mt.us
FAX (406) 444-3274

November 29, 2006

RECEIVED

NOV 29 2006

LEGISLATIVE AUDIT DIV.

Mr. Scott Seacat, Legislative Auditor
Legislative Audit Division
Room 135, State Capital
Helena, MT 59620

Re: Judicial Branch Audit for FY 2005 and FY 2006

Dear Mr. Seacat:

We have reviewed the November 2006 Financial-Compliance Audit of the Judicial Branch for the two fiscal years ending June 30, 2006. As has been the case since the inception of legislatively-mandated state assumption of district court expenses, the assistance from your Office in helping us identify areas where accounting weaknesses or gaps exist has been of great value. We appreciate the opportunity to respond.

The audit contains five recommendations for improvement in the Branch's fiscal operations. Our responses and corrective actions are presented below:

Recommendation #1

We recommend the Judicial Branch record valid obligations on its accounting records in accordance with state accounting policy.

Response:

We concur. The Judicial Branch will be requesting a supplemental appropriation in the 2007 Legislative session that, if approved, will enable the Branch to pay expenditures associated with services provided by the Department of Public Health and Human Services (DPHHS) during fiscal year 2007. In addition, the Judicial Branch and DPHHS are jointly requesting legislation that will eliminate the Branch's obligation in future years as the transfer of general fund from one agency to another has no net impact on the state general fund.

With regard to the Public Defender Expenditures, the Judicial Branch recorded all valid obligations at fiscal year end 2006 and will continue to do so in future years.

Recommendation #2

We recommend the Judicial Branch repay the General Fund \$3,860 and the Federal State Special Revenue Fund \$2,045.

Response:

We concur. In September 2006, as soon as this issue was brought to our attention, the Judicial Branch processed this repayment as recommended.

Recommendation #3

We recommend the Judicial Branch record transfers-in in accordance with state accounting policy.

Response:

We concur. The Judicial Branch properly recorded the unexpended JDIP funds received at fiscal year end 2005 and fiscal year end 2006 and will continue to do so in future years.

Recommendation #4

We recommend the Judicial Branch ensure youth court restitution is recorded on the branch's accounting records in accordance with state accounting policy.

Response:

We concur. The Judicial Branch currently records restitution accounts on the Branch's accounting system for 18 of the 22 Judicial Districts. (Three Districts have been added since the end of the audit period.) The Judicial Branch plans to add two more Districts by December 31, 2006. We are studying the processes used in the two remaining Districts and will record their accounts appropriately by fiscal year end 2007.

Recommendation #5

We recommend the Judicial Branch ensure that all youth courts deposit receipts in accordance with state law.

Response:

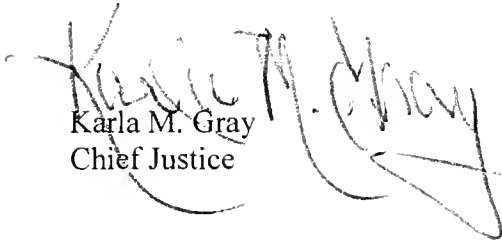
We concur. The Judicial Branch has implemented procedures for Office of Court Administrator personnel to monitor the timely deposit of funds by all Branch cash-collection points statewide. These procedures include immediate notification and follow up with any office if deposits are not processed in accordance with state law.

Mr. Scott Seacat, Legislative Auditor
Page 3
November 29, 2006

We would like to personally thank your staff who conducted this audit in a very cooperative, professional manner. Their findings and recommendations have given us valuable insight as we continue to provide judicial services in a fiscally appropriate and prudent manner.

We and other staff are available to answer questions or provide further information that you or the Legislative Audit Committee may require. We assure you that we will continue to do our very best to maintain proper fiscal accountability within the Judicial Branch.

Sincerely,



Karla M. Gray
Chief Justice



Becky L. Buska
Becky Buska
Financial Services Director

